

SUMMARY OF ISSUES RAISED ON THE FINAL BUDGET

1. There is a serious doubt that the Draft Budget is funded. Normally, Provincial Treasury will conduct a funding assessment using their funding tool as directed by National Treasury. The outcome of the Provincial Treasury's assessment is not attached to the budget report.

A comprehensive budget assessment was indeed done by PT and the recommendations were considered on the Final Budget. A copy is attached.

2. It is clear that the budget is not funded based on the following key facts: -
 - Schedule A7 indicates that the municipality will end the financial year on 30 June 2021 with a cash deficit of **R73,7 million**.

The A7 Worksheet is based on Contras which National Treasury is aware that municipalities are still struggling with a proper implementation thereof.

- Schedule A6 already indicates that on 30 June 2020 there will be a negative cash balance of **R9,3 million**.

The A6 Worksheet is also based on Opening Balances and Contras therefore it is difficult to project the Financial Position of the municipality.

- The municipality normally don't collect more than 90% of its debtors, but per cashflow statement reflected in schedule A7 it indicates it will collect more than 100% for property rates (**R19,5 million** per schedule A4 vs **R 25,5 million** per schedule A7. The cashflow projections are thus unrealistic.

With the new revenue enhancement strategy, we are hoping to collect more on old debt.

- Current liabilities are almost double that of current assets, meaning short term debt are not being paid.

A6 which contains Current Liabilities relies on Contra Accounts which is the new phenomenon and it is in line with mSCOA regulations.

- Provisions for depreciation are included in the tariffs that are charges for services, but it is not ring fenced for asset replacement. **Where is this money?**

There is a budget for maintenance.

3. If Council approves this unfunded budget, it is a contravention of the MFMA.

The budget that was submitted to the council is cash funded. However, the formula that indicates that it is not cash funded wants us to consider paying the Outstanding Creditors within one year.

This is not possible giving our current financial situation. The municipality is under financial recovery plan and is looking at revenue enhancement strategies in order to settle the old debt.

4. Material errors within the budget schedules/tables

1. The following are key errors in the budget schedules/tables which are a concern in terms of the accuracy and correctness: -

- Page 11 of the report indicates that the total operational expenditure amounts to **R 163,5 million**. This is a fundamental error in the report. Which amount is correct?

This was a tying error and does not warrant to be deemed as material as the figures that were presented by the Mayor in her budget speech are correct. It has since been rectified.

- Schedule A6- budget financial position-why are consumer debtors in credit with **R17 million**? Should be a debit as it is an asset.

This is a system error and therefore will be communicated with the Service Provider.

- Schedule A6- budget financial position- why are debtors in credit with **R28 million**? Should be a debit as it is an asset.

A6 or Statement of Financial Position is not 100% accurate as it is based on Opening Balances and Contrasts. Currently it is a challenge to budget for that and National and Provincial Treasury is aware that municipalities still struggle to budget for A6 and A7.

- Schedule A6-budget financial position- why is inventory in credit with **R2,9 million**? Should be a debit as it is an asset. Can council trust this document prepared by management? Is it not misleading council?

Same answer as above.

5. The budget document fails to list the outcome of the public participation processes followed by the Mayor and the MM as prescribed by the MFMA and the Systems Act. Did the community have time to give their inputs? Where are those inputs and what is the Mayor's responses to it? If any, where is it accommodated in the budget?

There were written comments that were submitted particularly Tariffs reduction from the community and a possibility of changing the indigent policy to increase the beneficiary to people earning less than R12000 and they were considered.

6. Although no provision is made for salary increase and the municipality applied for exemption to implement, exemption is not approved yet. What will council do if the application is not approved?

Chances of this exemption not to be approved are slim as the municipality will not have the source of funding the increase. However, the municipality will look at the merits of the disapproval and respond.

7. As per Schedule A10, the cost of free basic services will amount to **R20 million**, but it will receive **R26 million** to fund the poor. Why is the **R6 million** not directed to the poorest of the poor? What is the municipality doing with the R6 million that is meant for the poor?

The Equitable Share allocation from National Treasury is for Cost of Free Basic Services and Remuneration of Councillors.

8. NERSA will only allow an electricity increase of **6.22%**. The municipality wants to approve **6.23%** increase. This should be corrected in the budget.

This was a typing error. The Electricity Tariff was increased by 6.22%. it will be corrected on the final budget report.

9. Page 18- the municipal managers salary budget to the value of **R1,9 million** is much higher than the regulations for remuneration for senior managers.

This has been adjusted in the final report.

10. There is no indication of how the tariffs were calculated. Does it cover the cost of services or did the MM/CFO only add a percentage increase to what was already levied in the current year? If latter is applicable, it is not what National Treasury is recommending.

A detail of tariff calculation is available on request.

11. Certain supporting budget schedules/tables do not cross balance back to the main budget schedules. Meaning that mSCOA was not implemented correctly.

This question is vague. Perhaps if more detail is provided, I can be in a position to respond to it.

12. There is no indication if water and electricity losses are in the norm.

This information is contained on the Annual Report. If council requires it then it can be provided.

13. There is no indication how the municipality accounts for electricity and water losses in the budget.

This information is contained on the Annual Report. If council requires it then it can be provided.

14. The procurement plan is not attached to budget item as per MFMA circulars.

The Procurement Plan is available on request.

15. The SDBIP is not attached to the budget item as per MFMA circulars.

SDBIP is the last step of the Budget Process. It is done based on the Approved Budget. This means a budget must be approved in order for the SDBIP to be drafted.

16. The budget related policies are not attached to the budget item as required by the MFMA.

This is not correct. Annexure 3 of the Budget Documents represented the Budget Related policies that were reviewed and changed.

IN CONCLUSION:

- There is no consideration for the current economic challenges the municipality is facing in the wake of the COVID19 epidemic, as the municipality is budgeting for unrealistic cashflow projections.

This statement is incorrect. Both current economic situation, Municipal Financial Situation and COVID-19 challenges were all considered in this budget.

- The Mayor failed her fiduciary responsibility vested in her to ensure proper public participation did take place.

Due to the National Lockdown, the only feasible public participation was through social media of which a link to the budget documents was made available to the Municipal Facebook page.

- The budget is not responsive to the needs of the community.

Under the difficult circumstances that the municipality is currently facing, we have tried our utmost best for the budget to reflect the community needs especially the poor communities.

- The budget is unfunded.

We disagree with this statement and the reasons have been stated above.

- The budget contains material errors.

We disagree with this statement and the reasons have been stated above.

- The budget is therefore not credible.

We disagree with this statement and the reasons have been stated above.

- Major key budget assumptions lack in the budget documentation.

This is a vague statement. We have responded to the recommendations from Provincial Treasury to ensure that the budget is credible.

- Key supporting documentation (including procurement plans, SDBIP, budget policies, etc, are not attached to the budget report.

We have already responded to this.

- The budget schedules are not mSCOA compliant as it contains errors.

Errors in general do not constitute to a non-compliance. However, we have responded to the issues raised regarding A6 and A7.

- Based on all of the above, it will be in contravention of the MFMA to approve the budget if the listed non-compliance matters are not addressed prior to adoption.

The conclusion is based on misinformed information.

In Summary

The Budget and Treasury Office has hosted a budget workshop before the National Lockdown which was a relevant platform to debate the budget and raise these issues but unfortunately the people that are raising these questions now did not attend the Budget Workshop which could have provided more clarity for them. We will however try and ensure that such a workshop is held before the approval of the budget.

29 May 2020